

**MARION COUNTY SCHOOL DISTRICT  
AUDIT REPORT  
YEAR ENDED JUNE 30, 2007**

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September 26, 2007

**INDEPENDENT AUDITOR'S REPORT**

Members of the Board of Education  
Marion County School District  
Lebanon, Kentucky

We have audited the accompanying basic financial statements of the Marion County School District as of June 30, 2007, and for the year then ended, as listed in the accompanying table of contents. These basic financial statements are the responsibility of the District's management. Our responsibility is to express opinions on these basic financial statements based on our audit.

We conducted our audit in accordance with auditing standards and the standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, and the audit requirements prescribed by the Kentucky State Committee for Schools District Audits in Appendix I of the Independent Auditor's Contract – General Audit Requirements, Appendix II of the Independent Auditor's Contract – State Audit Requirements, and Appendix III of the Independent Auditor's Contract – Electronic Submission. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the basic financial statements present fairly, in all material respects, the financial position of the District as of June 30, 2007, and the results of its operations and the cash flows of its business type activities for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report dated September 26, 2007, on our consideration of Marion County School District's internal control over financial reporting and a report dated September 26, 2007, on our tests of its compliance with certain provisions of laws, regulations, contracts and grants. Those reports are an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The management's discussion and analysis on Pages 3 through 7 is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the basic financial statements taken as a whole. The additional information shown on Pages 36 through 39 is presented for the purpose of additional analysis and is not a required part of the financial statements. The accompanying Schedule of Expenditures of Federal Awards and Notes to Schedule of Expenditures of Federal Awards on Pages 40 and 41 are presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and are also not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Sincerely,

Certified Public Accountants

MARION COUNTY SCHOOL DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
YEAR ENDED JUNE 30, 2007

**NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

Reporting Entity

The Marion County Board of Education (“Board”), a five-member group, is the level of government which has oversight responsibilities over all activities related to public elementary and secondary school education within the jurisdiction of Marion County Board of Education (“District”). The District receives funding from local, state, and federal government sources and must comply with the commitment requirements of these funding source entities. However, the District is not included in any other governmental “reporting entity” as defined in Section 2100, Codification of Governmental Accounting and Financial Reporting Standards. Board members are elected by the public and have decision-making authority, the power to designate management, the responsibility to develop policies which may influence operations, and primary accountability for fiscal matters.

The District, for financial purposes, includes all of the funds and account groups relevant to the operation of the Marion County Board of Education. The financial statements presented herein do not include funds of groups and organizations, which although associated with the school system, have not originated within the Board itself such as Band Boosters, Parent-Teacher Associations, etc.

The financial statements of the District include those of separately administered organizations that are controlled by or dependent on the Board. Control or dependence is determined on the basis of budget adoption, funding, and appointment of the respective governing board.

Based on the foregoing criteria, the financial statements of the following organizations are included in the accompanying financial statements:

Marion County Board of Education Finance Corporation – On May 14, 1991, the Board of Education resolved to authorize the establishment of the Marion County School District Finance Corporation (a non-profit, non-stock, public and charitable corporation organized under the School Bond Act and KRS 273 and KRS Section 58.180) (the “Corporation”) as an agency for the District for financing the costs of school building facilities. The members of the Board also comprise the Corporation’s Board of Directors.

Basis of Presentation

Government-Wide Financial Statements – The statement of net assets and the statement of activities display information about the District as a whole. These statements include the financial activities of the primary government, except for fiduciary funds. The statements distinguish between those activities of the District that are governmental and those that are considered business-type activities.

The government-wide statements are prepared using the economic resources measurement focus. This is the same approach used in the preparation of the proprietary fund financial statements but differs from the manner in which governmental fund financial statements are prepared. Governmental fund financial statements therefore include reconciliation with brief explanations to better identify the relationship between the government-wide statements and the statements for governmental funds.

## NOTES TO FINANCIAL STATEMENTS (CONTINUED)

The government-wide statement of activities presents a comparison between direct expenses and program revenues for each segment of the business-type activities of the District and for each function or program of the District's governmental activities. Direct expenses are those that are specifically associated with a service, program or department and are therefore clearly identifiable to a particular function. Program revenues include charges paid by the recipient of the goods or services offered by the program and grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues are presented as general revenues of the District, with certain limited exceptions. The comparison of direct expenses with program revenues identifies the extent to which each business segment or governmental function is self-financing or draws from the general revenues of the District.

**Fund Financial Statements** – Fund financial statements report detailed information about the District. The focus of governmental and enterprise fund financial statements is on major funds rather than reporting funds by type. Each major fund is presented in a separate column. Nonmajor funds are aggregated and presented in a single column. Fiduciary funds are reported by fund type.

The accounting and reporting treatment applied to a fund is determined by its measurement focus. All governmental fund types are accounted for using a flow of current financial resources measurement focus. The financial statements for governmental funds are a balance sheet, which generally includes only current assets and current liabilities, and a statement of revenues, expenditures, and changes in fund balances, which reports on the changes in net total assets. Proprietary funds and fiduciary funds are reported using the economic resources measurement focus. The statement of cash flows provides information about how the District finances and meets the cash flow needs of its proprietary activities.

The District has the following funds:

### I. Governmental Fund Types

- A. The General Fund is the main operating fund of the Board. It accounts for financial resources used for general types of operations. This is a budgeted fund, and any fund balances are considered as resources available for use. This is a major fund of the District.
- B. The Special Revenue (Grant) Funds account for proceeds of specific revenue sources (other than expendable trust or major capital projects) that are legally restricted to disbursements for specified purposes. It includes federal financial programs where unused balances are returned to the grantor at the close of the specified project periods as well as the state grant programs. Project accounting is employed to maintain integrity for the various sources of funds. The separate projects of federally funded grant programs are identified in the Schedule of Expenditures of Federal Awards included in this report on Pages 39 and 40. This is a major fund of the District.
- C. Capital Project Funds are used to account for financial resources to be used for the acquisition or construction of major capital facilities and equipment (other than those financed by Proprietary Fund).
  1. The Support Education Excellence in Kentucky (SEEK) Capital Outlay Fund receives those funds designated by the state as Capital Outlay funds and is restricted for use in financing projects identified in the District's facility plan.

## NOTES TO FINANCIAL STATEMENTS (CONTINUED)

2. The Facility Support Program of Kentucky (FSPK) accounts for funds generated by the building tax levy required to participate in the School Facilities Construction Commission's construction funding and state matching funds, where applicable. Funds may be used for projects identified in the District's facility plan.
3. The Construction Fund accounts for proceeds from sales of bonds and other revenues to be used for authorized construction. This is a major fund of the District.

D. Debt Service Funds are used to account for the accumulation of resources for, and the payment of, general long-term debt principal and interest and related cost; and for the payment of interest on generally obligation notes payable, as required by Kentucky law.

### II. Proprietary Fund Types (Enterprise Fund)

The Food Service Fund is used to account for school food service activities, including the National School Lunch Program, which is conducted in cooperation with the U.S. Department of Agriculture (USDA). Amounts have been recorded for in-kind contribution of commodities from the USDA. The Food Service is a major fund.

The District applies all GASB pronouncements to proprietary funds as well as the Financial Accounting Standards Board pronouncements issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements.

### III. Fiduciary Fund Type (Agency and Private Purpose Trust Funds)

- A. The Agency Fund accounts for activities of student groups and other types of activities requiring clearing accounts. The funds are accounted for in accordance with the Uniform Program of Accounting for School Activity Funds.
- B. The Private Purpose Trust funds are used to report trust arrangements under which principal and income benefit individuals, private organization, or other governments.

### Basis of Accounting

Basis of accounting determines when transactions are recorded in the financial records and reported on the financial statements. Government-wide financial statements are prepared using the accrual basis of accounting. Governmental funds use the modified accrual basis of accounting. Proprietary and fiduciary funds also use the accrual basis of accounting.

Revenues – Exchange and Nonexchange Transactions – Revenues resulting from exchange transactions, in which each party receives essentially equal value, is recorded on the accrual basis when the exchange takes place. On a modified accrual basis, revenues are recorded in the fiscal year in which the resources are measurable and available. Available means that the resources will be collected within the current fiscal year or are expected to be collected soon enough thereafter to be used to pay liabilities of the current fiscal year. For the District, available means expected to be received within 60 days of the fiscal year-end.

## NOTES TO FINANCIAL STATEMENTS (CONTINUED)

Nonexchange transactions, in which the District receives value without directly giving equal value in return, include property taxes, grants, entitlements and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied. Revenue from grants, entitlements and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resource are required to be used or the fiscal year when use is first permitted, matching requirements, in which the District must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the District on a reimbursement basis. On a modified accrual basis, revenues from nonexchange transactions must also be available before it can be recognized.

Deferred Revenue – Deferred revenue arises when assets are recognized before revenue recognition criteria have been satisfied.

Grants and entitlements received before the eligibility requirements are met are recorded as deferred revenue.

Expenses/Expenditures – On the accrual basis of accounting, expenses are recognized at the time they are incurred. The fair value of donated commodities used during the year is reported in the statement of revenues, expenses, and changes in net assets as an expense with a like amount reported as donated commodities revenue. Unused donated commodities are reported as deferred revenue.

The measurement focus of governmental fund accounting is on decreases in net financial resources (expenditures) rather than expenses. Expenditures are generally recognized in the accounting period in which the related fund liability is incurred, if measurable. Allocations of costs, such as depreciation, are not recognized in governmental funds.

### Property Taxes

Property Tax Revenues – Property taxes are levied each September on the assessed value listed as of the prior January 1, for all real and personal property in the county. The billings are considered due upon receipt by the taxpayer; however, the actual date is based on a period ending 30 days after the tax bill mailing. Property taxes collected are recorded as revenues in the fiscal year for which they were levied. All taxes collected are initially deposited into the General fund and then transferred to the appropriate fund.

The property tax rates assessed for the year ended June 30, 2007, to finance the General Fund operations were \$0.472 per \$100 valuation for real property, \$0.472 per \$100 valuation for business personal property, and \$0.526 per \$100 valuation for motor vehicles.

The District levies a utility gross receipts license tax in the amount of 3% of the gross receipts derived from the furnishings, within the county, of telephonic and telegraphic communications services, cablevision services, electric power, water, and natural, artificial, and mixed gases.

### Capital Assets

General capital assets are those assets not specifically related to activities reported in the proprietary funds. These assets generally result from expenditures in the governmental funds. These assets are reported in the governmental activities column of the government-wide statement of net assets but are not reported in the fund financial statements. Capital assets utilized by the proprietary funds are reported both in the business-type activities column of the government-wide statement of net assets and in the respective funds.



## NOTES TO FINANCIAL STATEMENTS (CONTINUED)

All reported capital assets are depreciated. Improvements are depreciated over the remaining useful lives of the related capital assets. Depreciation is computed using the straight-line method over the following useful lives for both general capital assets and proprietary fund assets:

<b>Description</b>	<b>Governmental Activities Estimated Lives</b>
Buildings and improvements	25-50 years
Land improvements	20 years
Technology equipment	5 years
Vehicles	5-10 years
Audio-visual equipment	15 years
Food service equipment	10-12 years
Furniture and fixtures	7 years
Rolling stock	15 years
Other	10 years

### Interfund Balances

On fund financial statements, receivables and payable resulting from short-term interfund loans are classified as “interfund receivables/payables.” These amounts are eliminated in the governmental and business-type activities columns of the statements of net assets, except for the net residual amounts due between governmental and business-type activities, which are presented as internal balances.

### Accumulated Unpaid Sick Leave Benefits

Upon retirement from the school system, an employee will received from the District an amount equal to 30% of the value of accumulated sick leave.

Sick leave benefits are accrued as a liability using the termination payment method. An accrual for earned sick leave is made to the extent that it is probable that the benefits will result in termination payments. The liability is based on the School District’s past experience of making termination payments.

The entire compensated absence liability is reported on the government-wide financial statements.

For governmental fund financial statements the current portion of unpaid accrued sick leave is the amount expected to be paid using expendable available resources. These amounts are recorded in the amount “accumulated sick leave payable” in the general fund. The noncurrent portion of the liability is reported as a reserve of fund balance.

### Budgetary Process

**Budgetary Basis of Accounting:** The District’s budgetary process accounts for certain transactions on a basis other than Generally Accepted Accounting Principles (GAAP). The major differences between the budgetary basis and the GAAP basis are:

Revenues are recorded when received in cash (budgetary) as opposed to when susceptible to accrual (GAAP).

Expenditures are recorded when paid in cash (budgetary) as opposed to when susceptible to accrual (GAAP).

## NOTES TO FINANCIAL STATEMENTS (CONTINUED)

Once the budget is approved, it can be amended. Amendments are presented to the Board at their regular meetings. Such amendments are made before the fact, are reflected in the official minutes of the Board, and are not made after fiscal year-end as dictated by law.

Each budget is prepared and controlled by the budget coordinator at the revenue and expenditure function/object level. All budget appropriations lapse at year-end.

### Cash and Cash Equivalents

The District considers demand deposits, money market funds, and other investments with an original maturity of 90 days or less, to be cash equivalents.

### Inventories

On government-wide financial statements, inventories are stated at cost and are expensed when used.

On fund financial statements inventories are stated at cost. The cost of inventory items is recorded as an expenditure in the governmental fund types when purchased.

The food service fund uses the specific identification method.

### Investments

The private purpose trust funds record investments at their quoted market prices. All realized gains and losses and changes in fair value are recorded in the Statement of Changes in Fiduciary Net Assets.

### Accrued Liabilities and Long-Term Obligations

All payables, accrued liabilities, and long-term obligations are reported in the government-wide financial statements, and all payables, accrued liabilities, and long-term obligations payable from proprietary funds are reported on the proprietary fund financial statements.

In general, payables and accrued liabilities that will be paid from governmental funds are reported on the governmental fund financial statements regardless of whether they will be liquidated with current resources. However, claims and judgments, the noncurrent portion of capital leases, accumulated sick leave, contractually required pension contributions and special termination benefits that will be paid from governmental funds are reported as a liability in the fund financial statements only to the extent that they will be paid with current, expendable, available financial resources. In general, payments made within sixty days after year-end are considered to have been made with current available financial resources. Bonds and other long-term obligations that will be paid from governmental funds are not recognized as a liability in the fund financial statements until due.

### Fund Balance Reserves

The District reserves those portions of fund equity which are legally segregated for a specific future use or which do not represent available expendable resources and therefore are not available for appropriation or expenditure. Unreserved fund balances indicates that portion of fund equity which is available for appropriation in future periods. Fund equity reserves have been established for inventories and fixed assets.

## NOTES TO FINANCIAL STATEMENTS (CONTINUED)

### Net Assets

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction, or improvement of those assets. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the School District or through external restrictions imposed by creditors, grantors, or laws or regulations of other governments.

### Operating Revenues and Expenses

Operating revenues are those revenues that are generated directly from the primary activity of the proprietary funds. For the School District, those revenues are primarily charges for meals provided by the various schools.

### Contributions of Capital

Contributions of capital in proprietary fund financial statements arise from outside contributions of fixed assets, or from grants or outside contributions of resources restricted to capital acquisition and construction.

### Interfund Activity

Exchange transactions between funds are reported as revenues in the seller funds and as expenditures/expenses in the purchaser funds. Flows of cash or goods from one fund to another without a requirement for repayment are reported as interfund transfers. Interfund transfers are reported as other financing sources/uses in governmental funds and after nonoperating revenues/expenses in proprietary funds. Repayments from funds responsible for particular expenditures/expenses to the funds that initially paid for them are not presented on the financial statements.

## **NOTE B – ESTIMATES**

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires the District's management to make estimates and assumptions that affect reported amounts of assets, liabilities, fund balances, and disclosure of contingent assets and liabilities at the date of the general purpose financial statements, and the reported amounts of revenues and expenditures during the reporting period. Actual results could differ from those estimates.

## **NOTE C – CASH AND CASH EQUIVALENTS**

Custodial Credit Risk - Deposits. Custodial Credit is the risk that in the event of a bank failure, the District's deposits may not be returned to it. The District's policy is to have all deposits secured by pledged securities.

At year-end, the carrying amount of the District's total cash and cash equivalents was \$2,663,635. Of the total cash balance, \$211,129 was covered by Federal Depository Insurance, with the remainder covered by collateral agreements and collateral held by the pledging banks' trust departments in the District's name. Cash equivalents are funds temporarily invested in securities with maturity of 90 days or less.

## NOTES TO FINANCIAL STATEMENTS (CONTINUED)

Cash and cash equivalents at June 30, 2007, consisted of the following:

	<b>Bank Balance</b>	<b>Book Balance</b>
Citizens National Bank	4,419,009	2,429,525
U.S. Bank	2,750	2,750
Farmers Bank	17,273	17,273
Farmers Bank (Agency Funds)	89,855	89,565
Citizens National Bank (Agency)	124,192	116,143
Paine Webber	8,379	8,379
	<u>4,661,458</u>	<u>2,663,635</u>

Breakdown per financial statements:

Governmental Funds	2,392,838
Proprietary Funds	56,710
Private Purpose Trust Funds	8,379
Agency Funds	<u>205,708</u>
	<u>2,663,635</u>

### NOTE D – INVESTMENTS

The following is a comparison of the cost and fair value of investments held in trust at June 30, 2007:

	<b>Cost</b>	<b>Fair Value</b>
Private Purpose Trust Funds		
Equities	<u>108,650</u>	<u>167,539</u>

### NOTE E – BONDED DEBT AND LEASE OBLIGATIONS

The amount shown in the accompanying financial statements as lease obligations represents the District's future obligations to make lease payments relating to the bonds issued by the Fiscal Court of Marion County aggregating \$21,228,421.

The original amount of each issue and interest rates are summarized below:

1994 Series A	6,715,000	4.70% - 6.00%
1994 Series B	1,700,000	4.70% - 5.60%
1998 Energy	815,000	4.35% - 4.375%
1998	1,705,000	3.90% - 4.20%
1998 B	3,665,000	4.75% - 4.80%
KISTA Energy	224,000	4.10% - 4.90%
KISTA Buses	184,432	4.00% - 4.60%
KISTA Buses	269,222	3.50% - 4.20%
1999 Energy	215,000	4.75% - 4.75%
2002	3,490,000	1.50% - 3.85%
2003	3,625,000	2.00% - 4.125%
2005 Series A	5,920,000	4.17% - 4.18%
2005 Series B	2,455,000	3.96% - 3.97%
2006	675,000	3.85% - 3.86%

## NOTES TO FINANCIAL STATEMENTS (CONTINUED)

The District, through the General Fund (including utility taxes and the SEEK Capital Outlay Fund) is obligated to make lease payments in amounts sufficient to satisfy debt service requirements on bonds issued by the Marion County Fiscal Court and the City of Lebanon to construct school facilities. The District has an option to purchase the property under lease at any time by retiring the bonds then outstanding.

The proceeds from certain refunding issues have been placed in escrow accounts to be used to refund certain debt. At June 30, 2007, debt to be paid from escrowed funds was \$3,490,000 of principal. These escrowed funds and related debt are not included in the following schedule or balance sheet.

In 1995 the Board entered into "participation agreements" with the Kentucky School Facility Construction Commission. The Commission was created by the Kentucky Legislature for the purpose of assisting local schools districts in meeting school construction needs. The table sets forth the amount to be paid by the Board and the Commission for each year until maturity of all bonds issued.

The bonds may be called prior to maturity and redemption premiums are specified in each issue. Assuming no bonds are called prior to scheduled maturity, the maturity, the minimum obligations of the District, including amounts to be paid by the Commission at June 30, 2007, for debt service (principal and interest) are as follows:

Year	Principal	Interest	Participation	District's Portion
2007-08	1,273,932	793,994	805,656	1,262,270
2008-09	1,095,868	748,961	661,139	1,183,690
2009-10	1,080,000	709,792	662,363	1,127,429
2010-11	1,110,000	670,571	648,354	1,132,218
2011-12	1,105,000	629,359	610,808	1,123,550
2012-13	1,150,000	586,845	610,263	1,126,582
2013-14	1,200,000	542,006	619,991	1,122,015
2014-15	925,000	494,648	294,414	1,125,234
2015-16	970,000	455,040	294,408	1,130,632
2016-17	915,000	413,027	294,404	1,033,622
2017-18	955,000	372,648	294,406	1,033,242
2018-19	975,000	319,455	257,103	1,037,352
2019-20	985,000	280,196	228,431	1,036,765
2020-21	945,000	255,103	155,144	1,044,959
2021-22	990,000	215,546	137,010	1,068,536
2022-23	1,030,000	174,135	119,318	1,084,817
2023-24	1,035,000	114,935	101,186	1,048,749
2024-25	1,080,000	70,250	101,186	1,049,064
2025-26	<u>1,100,000</u>	<u>23,650</u>	<u>76,392</u>	<u>1,047,258</u>
	<u>19,919,800</u>	<u>7,870,161</u>	<u>6,971,976</u>	<u>20,817,985</u>

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

Long-term liability activity for the year ended June 30, 2007, was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
<b>Primary Government</b>					
Governmental Activities:					
Revenue Bond Payable	21,228,421	0	1,308,621	19,919,800	1,273,932
Accrued Sick Leave	<u>376,537</u>	<u>85,388</u>	<u>0</u>	<u>461,925</u>	<u>238,392</u>
Governmental Activities					
Long-Term Liabilities	<u>21,604,958</u>	<u>85,388</u>	<u>1,308,621</u>	<u>20,381,725</u>	<u>1,512,324</u>

# NOTES TO FINANCIAL STATEMENTS (CONTINUED)

## NOTE F - CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2007, was as follows:

	BEGINNING			ENDING
	BALANCE	ADDITIONS	RETIREMENTS	BALANCE
GOVERNMENTAL ACTIVITIES:				
Land	814,396			814,396
Buildings & Building Improvements	29,911,119	7,336,437		37,247,556
Technology Equipment	2,220,810	560,450	210,868	2,570,392
Vehicles	2,777,634	132,938		2,910,572
General Equipment	666,117	26,900		693,017
Construction	6,367,203	(5,807,217)		559,986
TOTAL AT HISTORICAL COST	42,757,279	2,249,508	210,868	44,795,919
LESS ACCUMULATED DEPRECIATION FOR:				
Land	0			0
Buildings & Building Improvements	9,771,709	786,857		10,558,566
Technology Equipment	1,504,981	287,864	210,868	1,581,977
Vehicles	2,251,165	74,858		2,326,023
General Equipment	398,229	48,393		446,622
Construction	0			0
TOTAL ACCUMULATED DEPRECIATION	13,926,084	1,197,972	210,868	14,913,188
GOVERNMENTAL ACTIVITIES CAPITAL NET	28,831,195	1,051,536	0	29,882,731
PROPRIETARY ACTIVITIES:				
Land	0			0
Buildings & Building Improvements	0			0
Technology Equipment	5,348			5,348
Vehicles	0			0
General Equipment	556,253	178,537	3,200	731,590
Construction	0			0
TOTALS AT HISTORICAL COST	561,601	178,537	3,200	736,938
LESS ACCUMULATED DEPRECIATION FOR:				
Land	0			0
Buildings & Building Improvements	0			0
Technology Equipment	3,921	981		4,902
Vehicles	0			0
General Equipment	385,219	30,125	3,200	412,144
Construction	0			0
TOTAL ACCUMULATED DEPRECIATION	389,140	31,106	3,200	417,046
PROPRIETARY ACTIVITIES CAPITAL NET	172,461	147,431	0	319,892
DEPRECIATION EXPENSE CHARGED TO GOVERNMENTAL FUNCTIONS AS FOLLOWS:				
Instructional				971,660
Student Support Services				869
Staff Support Services				10,020
District Administration				104,004
School Administration				33,769
Business Support Services				0
Plant Operation & Maintenance				24,063
Student Transportation				49,349
Central Office				2,737
Community Service Operations				1,501
TOTAL				1,197,972

## NOTES TO FINANCIAL STATEMENTS (CONTINUED)

### NOTE G – COMMITMENTS UNDER NONCAPITALIZED LEASES

Commitments under operating lease agreements for office equipment provide the minimum future rental payments as of June 30, 2007, as follows:

Year ending June 30:

2008	76,188
2009	76,188
2010	<u>50,792</u>
Total minimum payments	<u>203,168</u>

### NOTE H – RETIREMENT PLANS

Certified employees are covered under the Teachers' Retirement System of Kentucky ("KTRS"), a cost sharing, multiple employer defined benefit pension plan. KTRS administers retirement and disability annuities, and death and survivor benefits to employees and beneficiaries of employees of the public school systems and public educational agencies in Kentucky.

KTRS was created by the 1938 General Assembly and is governed by Chapter 161 Section 220 through 161 Section 990 of the Kentucky Revised Statutes (KRS). KTRS issues a publicly available financial report that includes financial statements and required supplementary information for the defined benefit pension plan. That report can be obtained by writing to Kentucky Teachers' Retirement System, 479 Versailles Road, Frankfort, KY 40601.

Contribution rates are established by KRS. Members are required to contribute 9.855% of their salaries to KTRS. The Commonwealth of Kentucky is required to contribute 13.105% of salaries. The federal program for any salaries paid by that program pays the matching contributions. KTRS requires that members of KTRS occupy a position requiring either a four (4) year college degree or certification by KY Department of Education (KDE)

Substantially all other employees (classified personnel) are covered under the County Employee's Retirement System ("CERS"), a cost sharing, multiple-employer, public employers retirement system. Funding for the Plan is provided through payroll withholdings of 5% and a Board contribution of 13.19% of the employee's total compensation subject to contribution.

The Board's total payroll for the year was \$15,963,894. The payroll for employees covered under KTRS was \$12,751,400 and for CERS was \$3,212,494.

For the year ended June 30, 2007, the Commonwealth contributed \$1,565,869 KTRS for the benefit of our participating employees. The School District's contributions to KTRS for the year ending June 30, 2007 were \$105,202, which represents those employees covered by federal programs.

The contribution requirements for CERS for the year ended June 30, 2007, was \$572,253, which consisted of \$423,772 from the Board and \$148,481 from the employees

Benefits under both plans will vary based on final compensation, years of service, and other factors as fully described in the Plan documents.



## NOTES TO FINANCIAL STATEMENTS (CONTINUED)

The “pension benefit obligation” is a standardized disclosure measure of the present value of pension benefits, adjusted for the effects of projected salary increased and step-rate benefits, estimated to be payable in the future as a result of employee service to date. The measure, which is the actuarial present value of credited projected benefits, is intended to help users assess the pensions’ funding status on a going-concern basis, assess progress made in accumulating sufficient assets to pay benefits when due, and make comparisons among the plans and employers.

KTRS and CERS do not make separate measurements of assets and pension benefit obligation for individual employers. The following tables present certain information regarding the plans’ status as a whole, derived from actuarial valuations performed as of the dates indicated:

	<b>KTRS</b> <b>June 30, 2006</b>	<b>CERS</b> <b>June 30, 2006</b>
Assets available for benefits, at fair value	14,857,641,000	5,162,894,136
Pension benefit obligation	<u>(20,324,781,000)</u>	<u>(6,179,569,267)</u>
(Underfunded)/overfunded pension benefit obligation	<u>(5,467,140,000)</u>	<u>(1,016,675,131)</u>

Ten-year historical trend information showing KTRS’s and CERS’s progress in accumulating sufficient assets to pay benefits when due is presented in their June 30, 2006 comprehensive annual financial reports.

As the District is only one of several employers participating in the Plan, it is not practicable to determine the District’s portion of the unfunded past service cost or the vested benefits of the District’s portion of the Plan assets.

The District also offers employees the option to participate in a defined contribution plan under Section 403(B), 401(K), and 457 of the Internal Revenue Code. All regular full-time and part-time employees are eligible to participate and may contribute to the maximum amount allowable by law. The District does not contribute to these plans.

### NOTE J – CONTINGENCIES

The District receives funding from federal, state, and local government agencies and private contributions. These funds are to be used for designated purposes only. For government agency grants, if based upon the grantor’s review, the funds are considered not to have been used for the intended purpose, the grantors may request a refund of monies advanced, or refuse to reimburse the District for its disbursements. The amount of such future refunds and unreimbursed disbursements, if any, is not expected, to be significant. Continuation of the District’s grant programs is predicated upon the grantors’ satisfaction that the funds provided are being spent as intended and the grantors’ intent to continue their programs.

### NOTE K – INSURANCE AND RELATED ACTIVITIES

The District is exposed to various forms of loss of assets associated with the risks of fire, personal liability, theft, vehicular accidents, errors and omissions, fiduciary responsibility, etc. Each of these risk areas is covered through the purchase of commercial insurance. The District has purchased certain policies, which are retrospectively related which include Workers’ Compensation insurance.

## NOTES TO FINANCIAL STATEMENTS (CONTINUED)

### NOTE L – RISK MANAGEMENT

The District is exposed to various risks of loss related to injuries to employees. To obtain insurance of workers' compensation, errors and omissions, and general liability coverage, the District participates in the Kentucky School Boards Insurance Trust Liability Insurance fund. The public entity risk pools operate as common risk management and insurance programs for all school district and other tax supported educational agencies of Kentucky who are members of the Kentucky School Boards Association. The District pays an annual premium to each fund for coverage. Contributions to the Workers' Compensation fund are based on premium rates established by such fund in conjunction with the excess insurance carrier, subject to claims experience modifications and a group discount amount. Dividends may be declared but are not payable until twenty-four (24) months after the expiration of the self-insurance term. The Liability Insurance fund pays insurance premiums of the participating members established by the insurance carrier. The Trust can terminate coverage if it is unable to obtain acceptable excess general liability coverage and for any reason by giving ninety (90) days' notice. In the event the Trust terminated coverage, any amount remaining in the Fund (after payment of operational and administrative costs for which coverage was provided) would be returned to the members on a pro rata basis.

The District purchases unemployment insurance through the Kentucky School Boards Insurance Trust Unemployment Compensation Fund; however, risk has not been transferred to such fund. In addition, the District continues to carry commercial insurance for all other risks of loss. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

### NOTE M – DEFICIT OPERATING BALANCES

There are no funds of the District that currently have a deficit fund balance. However, the following funds have operations that resulted in a current year deficit of expenditures over revenues resulting in a corresponding reduction of fund balance:

Food Service	32,392
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### NOTE N – COBRA

Under COBRA, employers are mandated to notify terminated employees of available continuing insurance coverage. Failure to comply with this requirement may put the School District at risk for a substantial loss (contingency).

### NOTE O – TRANSFER OF FUNDS

The following transfers were made during the year:

Type	From Fund	To Fund	Purpose	Amount
Matching	General	Special Revenue	Technology Match	42,796
Operating	General	Construction	Construction	234,779
Operating	General	Debt Service	Debt Service	213,006
Operating	Building	Debt Service	Debt Service	206,878
Operating	Capital Outlay	Debt Service	Debt Service	878,388
				<u>1,575,847</u>

## NOTES TO FINANCIAL STATEMENTS (CONTINUED)

### NOTE P – INTERFUND RECEIVABLES AND PAYABLES

Interfund balances at June 30, 2007, consisted of the following individual fund receivables and payables:

	<b>Receivables</b>	<b>Payables</b>
General Fund	3,643	
Agency Fund		3,643

### NOTE Q – CAPITALIZED INTEREST

For the year ended June 30, 2007, the District incurred interest expense of \$969,730. Of this amount, \$102,678 was capitalized to the St. Charles Middle School construction project, and \$867,052 was recorded as a current year expense.

MARION COUNTY SCHOOL DISTRICT  
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE YEAR ENDED JUNE 30, 2007

**NOTE A – BASIS OF PRESENTATION**

The accompanying schedule of expenditures of federal awards includes the federal grant activity of the Marion County School District and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

**NOTE B – FOOD DISTRIBUTION**

Nonmonetary assistance is reported in the schedule at the fair value of the commodities disbursed.

MARION COUNTY SCHOOL DISTRICT  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED JUNE 30, 2007

**Section I – Summary of Auditor’s Results**

**Financial Statements**

Type of audit issued: Unqualified

Internal control over financial reporting:

- Material weakness(es) identified? \_\_\_\_\_ Yes      X   No
- Significant deficiency(ies) identified that are not considered to be material weakness(es)? \_\_\_\_\_ Yes      X   None Reported

Noncompliance material to financial statements noted? \_\_\_\_\_ Yes      X   No

**Federal Awards**

Internal control over major programs?

- Material weakness(es) identified? \_\_\_\_\_ Yes      X   No
- Significant deficiency(ies) identified that are not considered to be material weakness(es)? \_\_\_\_\_ Yes      X   None Reported

Type of auditor’s report issued on compliance for major programs (unqualified):

Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of Circular A-133? \_\_\_\_\_ Yes      X   No

Identification of major programs:

<u>CFDA Number</u>	<u>Name of Federal Program or Cluster</u>
10.553/10.555/10.559	Child Nutrition Cluster
84.010/84.002	Title I Cluster

Dollar threshold used to distinguish between Type A and Type B programs: \$300,000

Auditee qualified as low-risk auditee?   X   Yes    \_\_\_\_\_ No

**Section II – Financial Statement of Findings**

No matters were reported.

**Section III – Federal Award Findings and Questioned Costs**

No matters were reported.

MARION COUNTY SCHOOL DISTRICT  
SCHEDULE OF PRIOR YEAR AUDIT FINDINGS  
JUNE 30, 2007

There were no prior year audit findings.

**WHITE AND COMPANY, P.S.C.**  
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Charles M. White, CPA

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September 26, 2007

**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND  
ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL  
STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING  
STANDARDS***

Members of the Board of Education  
Marion County School District  
Lebanon, Kentucky

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Marion County School District, as of and for the year ended June 30, 2007, which collectively comprise the Marion County School District's basic financial statements and have issued our report thereon dated September 26, 2007. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Marion County School District's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Marion County School District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Marion County School District's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Marion County School District's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the Marion County School District's financial statements that is more than inconsequential will not be prevented or detected by the Marion County School District's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the Marion County School District's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

#### Compliance and Other Matters

As part of obtaining reasonable assurance about whether Marion County School District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain matters that we reported to management of Marion County School District in a separate letter dated September 26, 2007.

This report is intended solely for the information and use of members of the Kentucky State Committee for School District Audits, members of the Board of Education of Marion County School District, the Kentucky Department of Education, management, and federal awarding agencies and pass-through entities, and is not intended to be and should not be used by anyone other than these specified parties.

Sincerely

Certified Public Accountants



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September 26, 2007

**REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR  
PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE  
WITH OMB CIRCULAR A-133**

Members of the Board of Education  
Marion County School District  
Lebanon, Kentucky

Compliance

We have audited the compliance of Marion County School District with the types of compliance requirements described in U.S. Office of Management and Budget (OMB) Circular A-133 *Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2007. Marion County School District's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of Marion County School District's management. Our responsibility is to express an opinion on Marion County School District's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Marion County School District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of Marion County School District's compliance with those requirements.

In our opinion, Marion County School District complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2007.

### Internal Control Over Compliance

The management of Marion County School District is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered Marion County School District's internal control over compliance with the requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Marion County School District's internal control over compliance.

A control deficiency in an entity's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

Marion County School District's response to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. We did not audit Marion County School District's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of members of the Kentucky State Committee for School District Audits, members of the Board of Education of Marion County School District, the Kentucky Department of Education, management, and federal awarding agencies and pass-through entities, and is not intended to be and should not be used by anyone other than these specified parties.

Sincerely,

Certified Public Accountants

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September 26, 2007

**MANAGEMENT LETTER**

Members of the Board of Education  
Marion County School District  
Lebanon, Kentucky

In planning and performing our audit of the financial statements of Marion County School District for the year ended June 30, 2007, we considered its internal control in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements. Our professional standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. We feel that the District's financial statements are free of material misstatement. However, we offer the following suggestions that we feel will strengthen your organization's internal control structure.

Prior Year Recommendation:

We noted that the District was under-collateralized by \$17,133 at Farmers National Bank for fiscal year 2006. We recommended that the District obtain additional collateral from the bank or reduce the amount of money on deposit there to below \$100,000.

Additional collateral has been secured from Farmers National Bank.

Prior Year Recommendation:

One high school activity fund (Yearbook) was noted as having a \$16,717 negative balance as of June 30, 2006. This situation apparently has existed for several years. We discovered this outstanding balance during our search for unrecorded payables. Persons responsible for the club did not consider this to be a liability since the yearbook company never sent a final bill until after the audit was normally complete. We recommend that this account be brought current and that a thorough review of yearbook companies be undertaken. All clubs should be made aware that their purchases cannot exceed available cash as of the end of the year.

The negative balance in the Yearbook activity fund has been corrected and policies with the yearbook companies have been reviewed, and an agreement has been reached whereby the yearbook companies will assist in preventing this circumstance from occurring in the future. All clubs have been made aware that their purchases cannot exceed available cash as of the end of the year.

Recommendation:

It was noted during the course of the audit that some checks written from the school activity funds at various schools did not have the required dual signatures. We recommend that the District communicate to all principals that all checks written require dual signatures prior to releasing the funds.

Management Response:

We will instruct the school principals that all checks are to receive dual signatures prior to release which is the District's policy.

Recommendation:

It was noted during the course of the audit that a standard invoice used for a purchase in an activity funds did not have the schools principal's signature approving the standard invoice for payment. We recommend that all standard invoices be approved by the principal prior to the disbursement of funds.

Management Response:

We will instruct the school principals that all standard invoices are to be reviewed and approved by them prior to the disbursement of funds which is the District's policy.

Recommendation:

It was noted during the course of the audit that a purchase order for school food service did not have the superintendent's signature as proof of approval. District policy requires the superintendent's approval prior to making the purchase. We recommend that all purchase orders be reviewed prior to purchase to ensure that evidence of proper approval is present.

Management Response:

We will instruct the accounts payable clerk to review all purchase orders to ensure approval evidence is present and to return those that do not have approval evidence to the requestor to obtain approval evidence of approval.

Recommendation:

It was noted during the course of the audit that there was a voucher package that was stamped "approved for payment," however, the director of finance failed to sign the payment approval as evidence that the voucher package was properly approved for payment. We recommend that the accounts payable clerk be instructed to return any voucher packages which are missing the payment approval signature to the director of finance to review and sign as evidence of approval of the payment.

Management Response:

We have instructed the accounts payable clerk to return any voucher package that does not have the director of finance's signature as evidence that payment has been approved.

We would like to offer our assistance throughout the year if and when new or unusual situations arise. Our awareness of new developments when they occur would help to ensure that the District is complying with requirements such as those mentioned above.

We will review the status of these comments during our next audit engagement. We have already discussed many of these comments and suggestions with various District personnel, and we will be pleased to discuss them in further detail at your convenience to perform any additional study of these matters or to assist you in implementing the recommendations.

Sincerely,